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## Not even Schwarzenegger can change the course of California's economy

By Daniel Weintraub  
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With California's economy slowing, Gov. Arnold Schwarzenegger has pledged to accelerate state spending on public-works projects to try to stimulate employment. That's fine, but it's unlikely to have much effect in the year ahead.

The slowdown is part of a national economic stall that itself is increasingly tied to global trends. Nothing a governor can do is going to change the course of those events very much, if at all. For the most part, the economy will have to work through the business cycle on its own, and it will.

California's unemployment rate jumped last month to 6.1 percent. That's up from 5.6 percent in November and 4.8 percent a year ago.

According to numbers from the state Employment Development Department, California employers actually created a net of about 15,000 jobs in December, which isn't bad. A separate survey of households, however, showed a decline in employment of 33,000 last month, though still an increase of 166,000 from a year ago.

All of those numbers are due to be adjusted in February, and most economists expect the real story to be that employment in California was pretty much flat through 2007. With more people entering the labor force, that means more people who want to work can't find jobs.

Stephen Levy, director of the Center for Continuing Study of the California Economy, says he thinks the state is about to begin what should be a short and mild recession. The slowdown is mainly the result of a drop in consumer spending caused by downturns in the housing industry and, lately, the stock market.

But Levy predicted that a recession, if it comes, will be nothing like those California endured in the early 1990s and the early part of this decade. In those slowdowns, large industries with tens of thousands of well-paying jobs essentially cratered.

In the 1990s, it was aerospace, which all but vanished from California as the Cold War ended, depressing the defense industry, and civilian airplane manufacturers left the state for places where it was cheaper to do business.

In 2000 and 2001, the Bay Area's high-tech industry went into a swoon with the end of the dot-com boom.

"This is a different recession," Levy told me last week. "None of our lead industries in terms of our economic base are threatened."

While employment in construction and the financial-services industry has fallen off with the slump in the housing market, Levy expects housing to hit bottom sometime in 2008. With the state still adding 500,000 people a year, it won't take long, he said, for builders to run through their inventory. They will soon need to start new construction again.

"We are going to get through it," he said. "We are building way below what any level of sustainable building is in this state."

Christopher Thornberg, an economist with Beacon Economics, said the construction industry is now employing about 900,000 people in California, down 50,000 from its peak. But that is still far more than the 700,000 jobs the industry accounted for in 2000. Like Levy, he expects the downturn to be short and relatively mild, but he said it is likely to be followed by a slower and less dramatic recovery as well.

"We have a new kind of recession," Thornberg said. "The old kind was much deeper, and then the recovery scooped everybody up and surged forward. Now we have mild downturns that are relatively shallow, but we don't get going as fast, either."

Schwarzenegger's plan to accelerate infrastructure spending is probably harmless, but it also won't help much. The projects he has in mind must still be designed and undergo environmental reviews, and in some cases state and local agencies must buy land to build new roads or schools. It will be many months, in some cases years, by the time some of the projects are built. By then the recession should be history.

Thornberg also noted that employment in big public projects such as road-building is far less intense than it is in residential construction.

"Roads and aqueducts are very capital-intensive," he said. "They use lots and lots of machines and not so many workers. In residential construction, you need a lot more guys for every dollar of construction."

Whenever the economy slows, the public gets uneasy and wants to see something done. Politicians, not wanting to appear insensitive, scramble to respond. But don't expect miracles.

For better or worse, the economy has a life of its own. Politicians, especially at the national level, or the Federal Reserve, which controls the money supply, can screw things up. But they are very unlikely to do anything to make things better. And that's even more true of a governor. Even a former action-movie hero.